

Program Management Office-Defense Travel System (PMO-DTS) Response to Citizens Against Government Waste (CAGW) Selection of the Defense Travel System (DTS) as a Top 9 Prime Cut Recommendation – as posted on the CAGW Website *Prime Cuts* – 14 September 2005.

Executive Summary: The Defense Travel System (DTS) is currently operational at over 5,600 sites across the Department of Defense (DOD). DTS is meeting all program development cost, schedule, and performance requirements and is the low cost option to the taxpayer over its lifecycle.

If the Department were to cancel the DTS contract, hundreds of millions of taxpayer dollars invested in an operational program that is meeting all cost, schedule and performance requirements would be wasted.

Transition to an eTravel Service (eTS) vendor would be very costly and time consuming. Prior to making a eTS selection, the Department would have to embark on a lengthy and expensive vendor testing program to ensure that the vendor's product met all high security DOD requirements and the expanded computation requirements required by unique DOD civilian, Active Duty, and Reserve Forces entitlements and business system processes. The Department most likely would have to alter its existing contractual arrangements with the travel services industry, which would certainly generate significant protests to the Government Accountability Office (GAO) and in the Federal court system. Subsequent to their resolution, DOD would then have to redeploy eTS to nearly half of its sites that were previously operating the cancelled DTS, and then retrain a significant population of users on the selected vendor's system. New front and back-end interfaces would need to be developed and tested at considerable expense if DOD was to gain additional processing cost savings on par with what is currently accomplished with DTS. Complicating this entire process would be the procurement of eTS as a service, which severely limits the Departments flexibility to reconfigure core functionality in a timely manner to meet changing DOD requirements. During this multi-year conversion process, the DTS-enabled savings that would have been achieved through the ongoing deployment of the nearly fully developed DTS would also be lost, further increasing overall costs to the taxpayer.

The low cost solution for the Department and the taxpayer is to continue final development of all required DTS functionality and deploy DTS as soon as possible throughout the Department. Its also the right thing to do for millions of uniformed military and DOD's civil service personnel, whom for too long have been burdened with complex, time consuming bureaucratic paper processes and who are looking forward to the significant time and effort savings under DTS, particularly the rapid settlement and payment of travel their vouchers.

For further information on DTS and eTS, see:

DTS Fact Sheet: http://www.dtstravelcenter.DOD.mil/Docs/DTS_Fact_Sheet_101705.pdf

DTS101 – Evolution of DTS: http://www.dtstravelcenter.DOD.mil/Docs/DTS_101_Evolution_of_DTS_101705.pdf

eTS-DTS Comparison: http://www.dtstravelcenter.DOD.mil/Docs/eTS-DTS_Comparison_Paper_Sep05.pdf

Specific Counterpoints to CAGW “Prime Cuts” Article, “The Defense Travel System”

CAGW Point: *“One-year savings: \$49 million Five-year savings: \$245 million”*

Counterpoint. CAGW’s estimated savings are significantly wrong. Terminating DTS and utilizing the General Services Administration (GSA) eTravel Service (eTS) would increase DOD operating costs in steady state by approximately \$40.2M to \$65.5M per year above what DTS will cost the Department to operate, with a total approximate five year cost increase of between \$201M and \$327.5M. Total DOD eTS lifecycle costs through FY16 would be roughly \$402M to \$655M more for a travel program that does not meet all DOD requirements, while at the same time costing the taxpayer significantly more than the entire Northrop Grumman DTS core development contract. The range for approximating additional costs is due to different eTS vendor pricing schemes and the two different ways eTS could be employed.

DTS is currently meeting all cost, schedule, and performance requirements. Terminating DTS would needlessly waste hundreds of millions of taxpayer dollars that have been invested in the development and ongoing deployment of DTS. Transition to an eTS-type program would take several years and significantly increase the Department’s overall costs by tens of millions of dollars due to program testing requirements, vendor selection, redeployment to over 5,600 existing DTS sites, and retraining of over a million personnel. In addition, the loss of savings that would accrue if DTS were to be completely deployed throughout the Department as scheduled would approach \$100M. Because eTS lacks the robust functionality of DTS, the Department would lose a minimum of \$25M per year in additional cost savings attributable to specialized DTS processes.

CAGW Point: *“The Defense Travel System (DTS) is the latest effort in the Department of Defense’s (DOD) 25-year search for a money-saving solution to government travel. In May 1998, the Defense Travel System Program Management Office (DTS PMO) competitively awarded a contract estimated to cost \$263.7 million to BDM, which was subsequently purchased by TRW, Inc., which in turn was purchased by Northrop Grumman (Northrop). Northrop was required to develop an “e-travel system” which would provide for the “end-to-end” or total travel management needs of the DOD.*

The original DTS contract required Northrop to pay for all costs associated with developing, testing and deploying DTS and receive no revenue until the system was completed, proven effective and operationally deployed. Moreover, the amount of revenue earned by Northrop was contingent on the extent of actual use by DOD travelers.

DOD was to pay a fixed price of \$64 million for DTS after it had been operationally deployed at 11,000 DOD sites worldwide and a \$5.27 fee each time DTS was used for an official trip by DTS travelers. The total cost for five years with full usage by 3.2 million DOD travelers and approximately 5 million trips a year was supposed to equal the \$263.7 million provided for in the contract.”

Counterpoint: In 1997, the DTS Program Management Office (PMO), working toward the goal of implementing the envisioned end-to-end DTS business processes and architecture, issued a Request for Proposal (RFP) for a best value travel authorization, commercial travel systems interface, voucher processing, and budget tracking system. Two responsive offers were received, and an eight-year contract (five-year base with three one-year renewal options) was awarded in 1998 to BDM. BDM was later acquired by TRW, which was subsequently acquired by Northrop Grumman Mission Systems (NGMS) in 2002.

This eight-year contract, including options, required Northrop Grumman to provide the travel authorization, reservation and booking interfaces (which function in accordance with Federal travel policy), and voucher computation portions of the DOD end-to-end system. This was a requirements contract with no established ceiling amount. Payment was based on the number of users migrated into the system and the frequency with which the system was used to process travel vouchers. Consequently, although there were fixed prices for certain contract line item numbers, the exact overall cost of the contract was unknown and could only be estimated. The often-quoted \$263.7M figure for this contract was simply an estimate, made on the assumptions that all DOD two-way systems interfaces could be developed in a timely manner, that the contractor could perform necessary modifications to the travel authorization and voucher computation system (TAVS) core, and that the end-to-end DTS could be fielded throughout DOD under a very aggressive schedule.

Although DOD’s RFP contained best-case notional schedules for testing and deployment of DTS, these timelines were dependent on the multiple factors mentioned above. Both parties acknowledged this fact in the accepted proposal, which also recognized that the deployment schedule was subject to change. It must also be noted that the schedule in the contract was for planning purposes and subject to change because timelines for development and deployment of the system are driven by the system integrator, which is DOD. Since July 2001, prior to the contract restructure, the schedule to complete fielding of DTS has been the end of FY 2006, which coincides with the end date of the original 1998 contract award.

CAGW Point: *“However, the initial tests of DTS were failures. The DTS PMO soon recognized that the envisioned travel system was more complicated than originally thought and Northrop’s software was far less capable than promised. By August 2001, less than one month before DTS was to be fully completed under the contract, the DTS continued to fail its tests and was not ready for use at any DOD site. During this period, it became apparent to the DOD and Northrop that DTS simply would not result in a*

functional end-to-end travel management system.”

Counterpoint: DOD’s execution of its responsibility for developing the interfaces with the DOD PKI, financial management and other necessary systems proved to be more challenging and time consuming than expected. In addition, unique Department of Defense requirements necessitated significant modifications to the commercial-off-the-shelf (COTS) core, which required Northrop Grumman to extensively modify the accepted system at its own expense while earning little transaction volume-based revenue. However, Northrop Grumman’s iterative core software releases and system enhancements produced a functional client-server based system as required by the contract.

In acknowledgement of the more challenging developmental nature of the project, and the dependence of DTS functionality on successful interfaces with essential Department systems, the government restructured its contract with NGMS in early 2002 without altering its September 2006 end date. The contract restructure did not alter the relative risk between the Department and NGMS and the Government acquired increased rights to the developed software. Most importantly, the estimated \$263.7M cost of the NGMS contract remained unchanged.

CAGW Point: *“The expanded cost and the unanticipated burden on taxpayers occurred in 2002 after DOD and Northrop realized that DTS was more cumbersome than originally anticipated. The original contract, under which Northrop would bear all of the development costs, was secretly re-worked, removing the most stringent aspects of the contract and foisting all costs associated with the system onto taxpayers. Even worse, the government paid Northrop \$53.5 million to cover the retroactive costs incurred during the unsuccessful tests prior to December 2000, and the government paid another \$30-\$40 million while the contract was being restructured.*

On July 26, 2004, the U.S. Court of Federal Claims recently determined that the contract modifications violated the Competition in Contracting Act and required part of the revised agreement to be re-bid.”

Counterpoint: The CAGW allegations closely parallel the allegations raised by Carlson Wagonlit Government Travel, Inc. (CWGT) in its largely unsuccessful lawsuit challenging the propriety of the modifications to the original contract. Rather than foisting additional costs on taxpayers, the Court found that the value of the contract prior to the 2002 restructure and after the restructure was the same, approximately \$263.7 million, and that the cost and associated burden on the taxpayers were the same.

The Government paid TRW \$43.7 million for restructure of the contract. That amount included some reasonable costs for work performed through December 2000. While restructure negotiations were on-going, the Government negotiated a bridge task with TRW for continued work on existing DTS requirements while other requirements were being defined. The total obligation for that bridge task was \$31.7 million for work from

January 2001 through March 2002. Both amounts in question are included in the estimated Northrop contracts ceiling of \$263.7 million.

CAGW continues to allege that the DTS contract restructure was secretly done in violation of applicable procurement laws. This is not true.

The Government provided public notice of its intent to restructure the contract via a notice in the Commerce Business Daily (CBD) and the restructure complied with applicable procurement laws and regulations to include the Competition in Contracting Act (CICA). Claims that the contract restructure violated the Competition in Contracting Act are the subject of ongoing litigation in the Court of Appeals for the Federal Circuit. The claims that an earlier ruling by the Court of Federal Claims on July 26, 2004, held that the contract restructure violated the Competition in Contracting Act are inaccurate.

However, the Court did not rule that the contract restructure violated the Competition in Contracting Act. Rather, the Court expressly declined to make such a ruling. Instead, the Court dismissed these allegations concluding that it was in the public's interest for performance of the contract to continue. The Plaintiff in this case, CW Government Travel Inc., filed a motion for reconsideration with the Court, which was also subsequently denied. CW Government Travel has since appealed the Court's ruling, which is currently under review by the Court of Appeals for the Federal Circuit. The Court's ruling did find that a minor modification adding traditional travel services to the DTS contract was a cardinal change and ordered the Department to terminate that portion of the contract. Although it disagreed with the ruling, the Department complied with the order and recompeted DOD travel services for a small area in the upper mid-west.

CAGW Point: *"DTS has already cost more than \$400 million to date and one Pentagon estimate places the final cost at \$537 million."*

Counterpoint: The total Defense Travel System total program acquisition budget is \$474M through FY 2006, which includes the Northrop Grumman estimated total contract cost of \$264M for core system development, operations, and deployment. DOD has spent \$229M on the Northrop Grumman Contract and \$172.7M on the Department's area of DTS responsibility from 1996 through August 31, 2005. It is anticipated that future DOD expenditures for the Northrop Grumman contract and the Department's end-to-end responsibilities will be somewhat less than the remaining \$72.3M DTS program budget balance.

CAGW Point: *"Even worse, taxpayers are now paying for the defective travel system, which cannot even guarantee the lowest fare..."*

Counterpoint: DTS is not defective; it works as designed. As of 27 September 2005, DTS is deployed to 5,628 sites (approximately 55%) of DOD's approximately 11,000 worldwide sites. This includes over 190 high-volume travel sites, which collectively account for approximately 80% of DOD travel. More DOD sites are coming on line every month

Over 688,000 personnel are currently signed up to use DTS and more users are self-registering every day. The number of personnel signed up to use DTS for travel does not include other key DTS users...Authorizing and Approving Officials (AO), Defense Travel Administrators (DTA), Centrally Billed Account (CBA) personnel, and other process owners who are also using DTS every day to support and manage the travel process. This is a key point, because DTS is important not only to the traveler, but also to commanders, managers and process owners. It is in this regard, too, that DTS differs significantly from the GSA eTravel Service. DTS is an end-to-end travel and financial management system.

The Program Management Office (PMO) expects to complete deployment of DTS to approximately 280 travel sites by the end of FY2006, to include all high-volume sites. The Service and Agency components responsible for deploying DTS to the remainder of the approximately 11,000 total DOD sites indicate that they will successfully field DTS to these remaining sites also by the end of 2006. When fully deployed, DTS will support over 3.2 million military and DOD civilian personnel.

CAGW Point: *“... DTS is so underutilized that the cost per transaction is approximately \$33,000. Even if the system is fully implemented by every DOD facility and every DOD traveler, which is not likely, it would take 15 years for any savings to be realized.”*

Counterpoint: As of 27 September 2005, DTS has processed over 1,110,000 approved authorizations and over 908,000 approved vouchers. At the end of FY05, the average operating cost per DTS transaction was lower than the \$34 Defense Finance and Accounting Service (DFAS) legacy voucher processing rate. In FY06 the cost per DTS voucher is anticipated to decline to approximately \$18.49 as compared to the FY06 DFAS legacy rate of \$39.04, and in FY07 the average cost of a DTS voucher will fall below the average cost of an eTS voucher. When fully deployed and at steady state the average operating cost of a DTS voucher will be the mid \$6 range.

The \$33,000 cost per transaction quoted by CAGW is a gross manipulation of numbers to achieve a seemingly ridiculous and sensational figure. It was derived by dividing the total estimated cost of the entire DTS program through FY2006 (\$492M in 2002) by 15,000 tickets issued by FY2002, which was really the first year the system was used by only a limited number of sites. This is analogous to saying that if you pay \$30,000 for a car and drive it 10 miles that the cost per mile is \$3,000.

The reason that DTS is the lowest total cost option for the taxpayer is because the Department is “building to own and operate” instead of “leasing in perpetuity”. DOD has a large number of unique operational and financial requirements that far exceed the less stringent generic processes required by the Civilian Agencies. As the system owner, DTS operating costs are fixed regardless of the number of transactions processed. On the other hand, eTS is charged to the user on a per voucher basis for a generic system that is structured to support the less complex Civilian Agency requirements. The three eTS vendors recover their development costs and earn a profit on their generic systems

by charging a rate per voucher that, with sufficient expected volume, should exceed their pro rata operating costs. This arrangement best suits the smaller Civilian Agencies with their smaller aggregate transaction levels and lower system investment budgets.

Program requirement differences were thoroughly examined by both the GSA eTravel PMO and the DTS PMO in 2003, and the results were briefed to the Office of Management and Budget. The study showed that two separate programs were necessary because the requirements and financial processes were sufficiently different to preclude a single program. In addition, a comparative cost analysis was conducted, which showed that the less capable eTS would be the more expensive option for DOD. As announced in the December 22, 2003 Federal Register, DOD was specifically exempted from the Federal policy requiring use of the GSA eTravel service. For a very detailed comparison and contrast of eTS and DTS, see the reference at the end of the Executive Summary.

CAGW Point: *“The General Services Administration (GSA) required every civilian agency to choose one of three vendors for their e-travel services by January 1, 2005: CW Government Travel, EDS, or Northrop Grumman’s DTS. When the GSA selected the private companies that would provide travel services to government travelers, it did not require each of the companies to guarantee that its e-travel system would produce the lowest applicable fare for government travel. Had this basic protection from excessive costs been mandated, Northrop’s DTS system would not have been eligible for consideration by other federal departments and agencies.*

Counterpoint: All government travel programs are required to procure airfares in accordance with Federal travel policy. DTS displays priced unrestricted government airfares from lowest to highest cost (first are capacity controlled City Pair Program (-CA) that have the highest discount; followed by standard City Pair Program (YCA) fares that average 72% off of standard unrestricted fares; followed by “me, too” fares – comparably priced non-City Pair Program unrestricted fares). Although lower cost restricted fares *may* be available, they often have very limiting terms and conditions (advance purchase, change fees, non-refundability, non-transferability, weekend stay required, round trip required) that generally make these lower quality fares unattractive for government business travel. Travelers may ask their Commercial Travel Office (CTO) to research fares that are lower in cost and available to the general public, and may use those fares with approval from their Authorizing Official. In so doing, the traveler’s organization assumes responsibility to pay for any additional costs incurred should changes be required to restricted fare travel.

CAGW Point: *“While DOD had good intentions to cut wasteful travel spending and make its travel services more streamlined, what it now has is an inefficient, expensive system. DOD should use alternative private sector e-travel systems that cost taxpayers nothing to develop and provide quicker and cheaper solutions.”*

Counterpoint: The DTS is very efficient, as evidenced by its streamlined transaction processing, tight process controls, rapid two-way information flows, quick voucher

payments, and enhanced accounting system accuracy. Although there are significant upfront investment costs, over its lifecycle DTS is the lowest cost option to the Department and the taxpayer. Were an eTS vendor to be selected by the Department, the Department would either have to accept reduced functionality and higher costs, or fund the vendor to make significant enhancements to their product.

CAGW Point: *“Both the DOD inspector general (IG) and the agency’s program and evaluation office have documented problems with DTS and the IG recommended canceling the program.”*

Counterpoint: The DOD IG and the DOD Program Analysis and Evaluation Office (PA&E) serve in an advisory capacity to the Department, and did not recommend canceling the program. As discussed in the report, the DOD IG recommended that the DTS be managed as a Major Automated Information System (MAIS) acquisition, and the Department concurred with that recommendation. PA&E was thoroughly involved in the DTS program acquisition process after the DTS transitioned to a MAIS program, and at the end of a detailed Department evaluation agreed with the Military Services and Defense Agencies that the DTS should proceed with full scale production and deployment.

The DOD Inspector General (DOD IG) initiated a review of the DTS in early 2002. As pointed out in the Management Response comments, the IG report confused the estimated total end-to-end DTS costs with the NGMS contract cost. The original estimated total program cost for DTS of \$491.7M through FY2006 included the front and back end systems architecture and infrastructure, as well as the costs of administering, training, and fielding the system. These are costs for which the government is directly responsible and are not included as part of the Northrop Grumman developmental contract. Subsequent to the DOD IG report, the estimated total program costs for DTS were reduced to approximately \$474M in anticipation of additional savings to be accrued from the introduction of enhanced DTS functionalities.

CAGW Point: *“Taxpayers should not be burdened with the defective and expensive DTS. The Pentagon should cancel the current contract and re-solicit the bid to save money and achieve the original goal of producing a streamlined e-travel system.”*

Counterpoint: The Defense Travel System (DTS) is neither defective nor expensive when compared to the multitude of existing legacy systems. DTS is meeting all program development cost, schedule, and performance requirements and is the low cost option to the taxpayer over its lifecycle.

If the Department were to cancel the DTS contract, hundreds of millions of taxpayer dollars invested in an operational program that is meeting all cost, schedule and performance requirements would be wasted. The transition back to legacy systems while waiting for a new system to be developed would be costly, time-consuming and inefficient.